AG970-1

Economic Decline Slows; PMI Rises to 38.5%; Price Index Tumbles to 49.1%

FEBRUARY REPORT

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of corporate purchasing, Pitney Bowes, Inc.

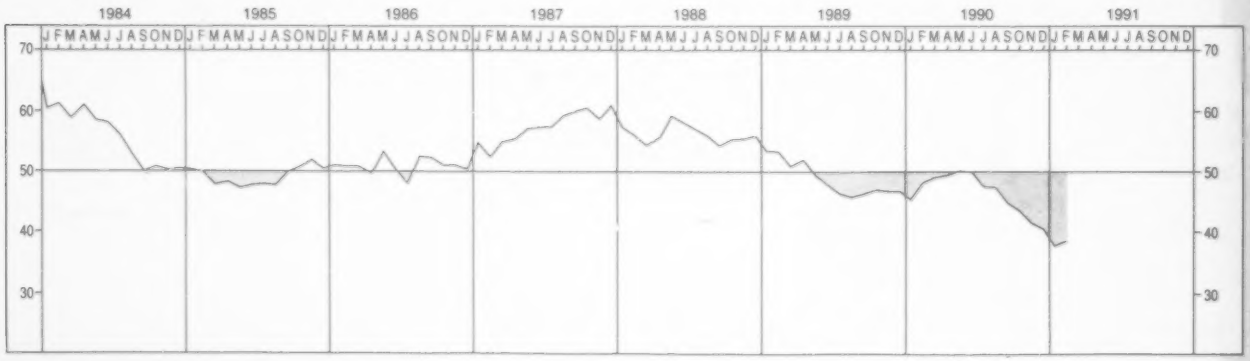
The U.S. economic decline continued in February 1991 for the fifth consecutive month, although the rate of the decline lessened for the first time since July 1990, say the nation's purchasing executives in their latest **Report on Business**. The Production Index declined for the seventh consecutive month, although at a lesser rate than in January 1991. The New Orders Index, although declining for the eighth consecutive month in February, reversed direction and ended a string of nine successively lower months.

The Supplier Deliveries Index registered the same rate of decline in February as in January, perhaps signalling a slowing in the diminishing demand trend of past months. Inventories declined in February for the 27th consecutive month, although at a slightly lesser rate than in January. The Employment Index, a lagging indictor, declined in February for the 25th consecutive month, and is the lowest since November 1982. The Price Index registered the second consecutive downward plunge in February after seven consecutive months of increases, caused primarily by the fear of shortages of oil-related products. New Export Orders continued to grow in February, although the rate of growth slowed. Imports declined for the tenth consecutive month in February, at a lesser rate than the previous three months.

In a series of special questions, purchasing executives, on average, indicated they expect the recession to end in the first half of September 1991. Again, on average, they expect the situation in the Middle East to be resolved to the point where it is not a significant factor in decision making by July 1, 1991. Only 12% of purchasers reported deferring some purchases as a result of the war in the Middle East. Over 60% cited capital expenditures as the category of purchase being deferred.

The **Report** was issued by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of corporate purchasing at Pitney Bowes, Inc. Said Bretz, "Although the economy is still in a decline, there are encouraging signs in February's **Report** that we may have reached the bottom of the declining trend. The New Orders Index did not decline and actually rose somewhat, while the Supplier Deliveries Index was identical to January's level and Inventory levels remained relatively low. Perhaps most encouraging is the significant reduction in the rate of price increases. Overall, the light at the end of the tunnel may still be very dim, but it may very well be signalling that the worst is now behind us."

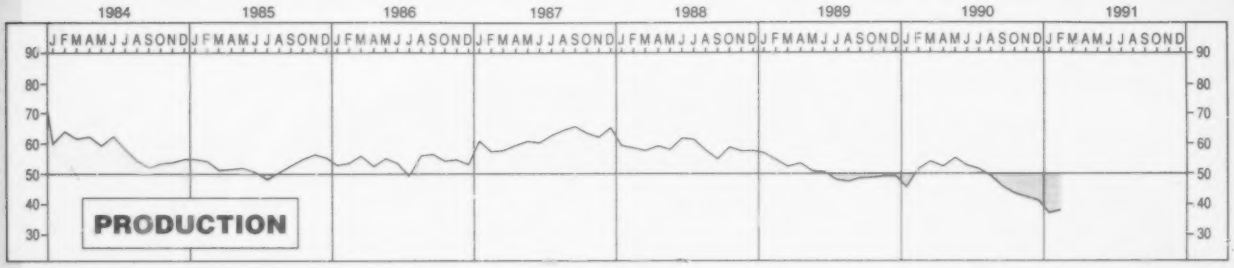
PURCHASING MANAGERS' INDEX



PURCHASING MANAGERS' INDEX (PMI)

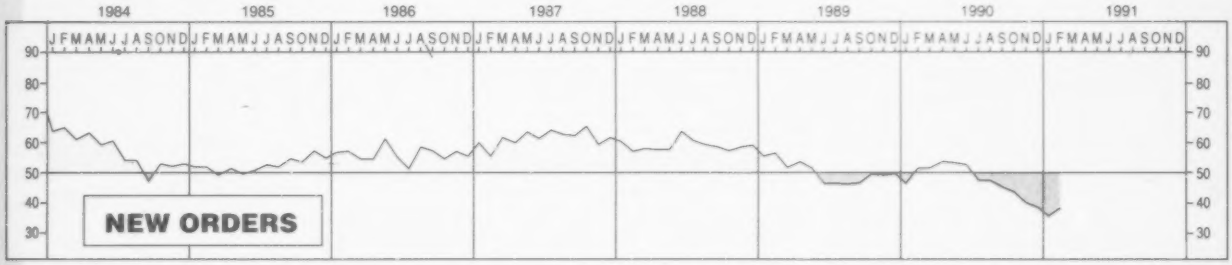
February '90	48.1	September '90	44.9
March '90	49.0	October '90	43.6
April '90	49.4	November '90	41.6
May '90	50.1	December '90	40.5
June '90	49.9	January '91	37.7
July '90	47.6	February '91	38.5
August '90	47.4		

The Purchasing Managers' Index (PMI) rose to 38.5% in February, up from 37.7% in January. Although the 38.5% marks the ninth consecutive month below 50%, it is also the first time since May 1990 that the PMI has not fallen lower than the previous month. A reading below 50 indicates that the manufacturing economy is generally declining; above 50, that it is generally expanding. Bretz added, "February is the fifth consecutive month that the PMI has registered less than 44%, generally indicative of a decline in the entire economy. The February PMI of 38.5% is approximately the level the PMI reached in the sixth month (January 1982) after the previous recession began."



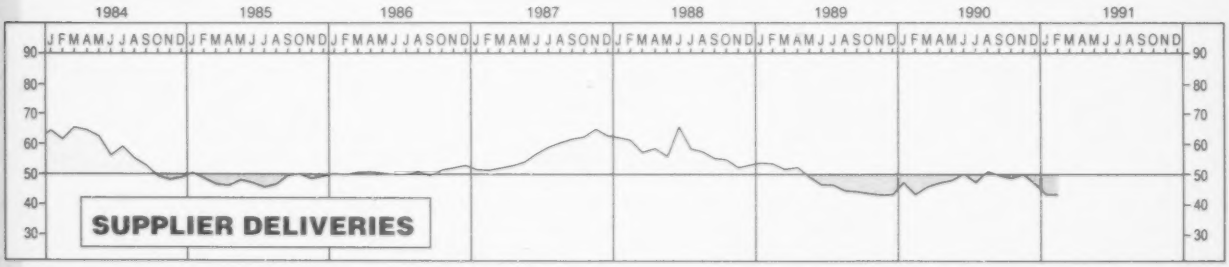
Production declined in February for the seventh consecutive monthly. Although still declining, the Production Index registered a significant change in the direction of the decline. The Production Index rose a point to 38.1% in February, up from 37.1% in January. Hopefully, the similar reversal in the downward trend of New Orders will result in future improvement in the weak production levels.

Production	%Better	%Same	%Worse	Net	Index
February 1991	15	49	36	–21	38.1
January 1991	14	47	39	–25	37.1
December 1990	12	53	35	–23	41.0
November 1990	16	49	35	–19	42.3



New Orders declined in February for the eighth consecutive month. However, February's New Orders Index registered a healthy rise to 38.3% from 35.7% in January. Though still too soon to be certain, February might be the bottom of the current economic cycle, and the beginning of an upward trend.

New Orders	%Better	%Same	%Worse	Net	Index
February 1991	17	45	38	–21	38.3
January 1991	15	44	41	–26	35.7
December 1990	15	40	45	–30	38.5
November 1990	18	39	43	–25	40.0



The Supplier Deliveries Index declined in February for the sixth consecutive month. Supplier Deliveries registered 43.3%, identical to January's Index. Although too early to be certain, the January/February Indexes may have formed a bottom in the downward trend.

Supplier Deliveries	%Slower	%Same	%Faster	Net	Index
February 1991	4	78	18	–14	43.3
January 1991	4	80	16	–12	43.3
December 1990	5	83	12	– 7	46.8
November 1990	9	80	11	– 2	49.9

IN SHORT SUPPLY

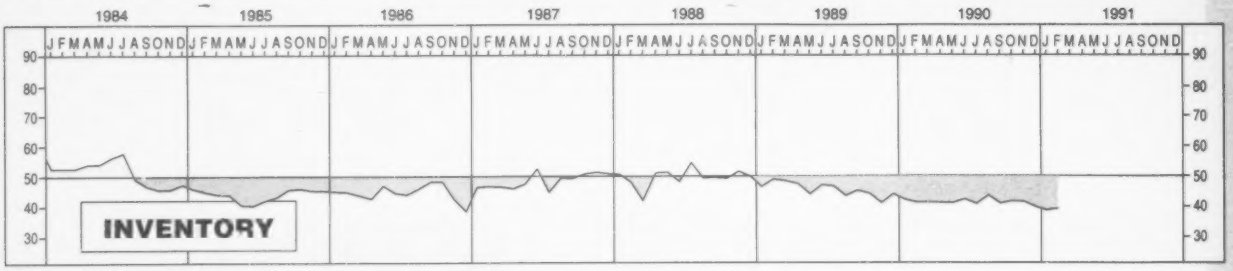
Bearings — 31st consecutive month; **Steel Castings** — 6th consecutive month; **Caustic Soda/Soda Ash** — 45th consecutive month (used heavily in paper making, petroleum refining, and soap making); **Methyl Ethyl Ketone (MEK)** — 6th consecutive month (used heavily as a chemical solvent in surface coatings, and making resins); **Titanium Dioxide** — A lead-free pigment used as a whitener in coatings, paints, paper, and other industrial applications; **Solid Bleached Sulfate (SBS) Paperboard; DRAMS.**

UP IN PRICE

Steel — Equal reports of price decreases; **Steel Castings; Engines; Electric Motors; Acetic Acid** — 2nd consecutive month (used in making various acetates, plastics and rubber tanning, a preservative in foods and a solvent for gums, resins, and volatile oils); **Caustic Soda/Soda Ash** — 51st consecutive month (used heavily in paper making, petroleum refining, and soap making); **Ethyl Acetate** — Used heavily in pharmaceuticals as a flavor and in artificial fruit essences; **Methanol; Methyl Ethyl Ketone (MEK)** — 6th consecutive month; **Methacrylic Acid** — Used in making methacrylate resins and plastics; **Textile Dyes** — 3rd consecutive month; **Cotton Fabric** — 2nd consecutive month; **Vinyl Fabric** — 2nd consecutive month; **Plastic Resins** — 6th consecutive month; **Plastic Products** — 3rd consecutive month; **Polyethylene** — 6th consecutive month (used heavily in making plastic packaging materials, kitchenware, tank and pipe linings, paper coatings, and textile stiffeners); **Polyvinyl Alcohol** — Used heavily in plastic molding compounds, surface coatings, textile sizes and finishing, in printing inks for plastic and glass, and pharmaceutical finishing; **Rubber and Rubber Products** — 2nd consecutive month; **Glass and Glass Bottles** — 2nd consecutive month; **Silica Sands** — 2nd consecutive month (used heavily in making glass); **Silicon, Substrate and Dust** — 2nd consecutive month (used heavily in making transistors, diodes, and semiconductors); **DRAMS** — Equal reports of price decreases; **Corn.**

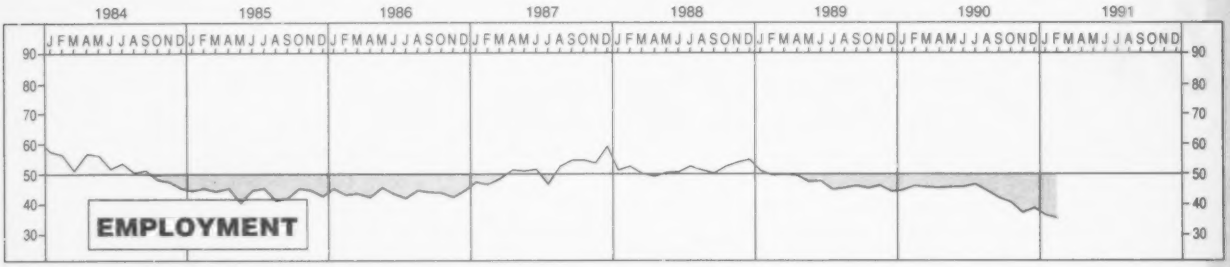
DOWN IN PRICE

Aluminum — 4th consecutive month; **Aluminum Castings; Brass** — 4th consecutive month; **Copper** — 4th consecutive month; **Magnesium; Nickel** — 4th



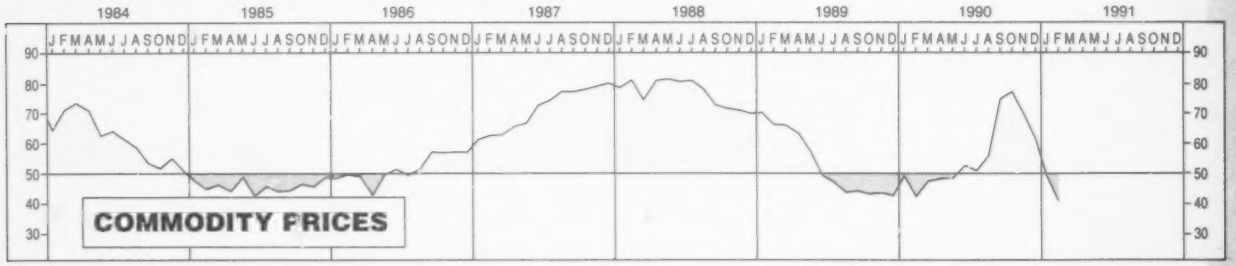
Inventories declined in February for the 27th consecutive month, although at a slightly lesser rate than in January 1991. The Inventories Index rose to 39.2%, up from 38.6% last month, but it is still at a very low level, considering the pace of the decline in production.

Inventories	%Higher	%Same	%Lower	Net	Index
February 1991	15	52	33	–18	39.2
January 1991	15	47	38	–23	38.6
December 1990	15	47	38	–23	39.7
November 1990	12	54	34	–22	41.3



Employment declined in February for the 25th consecutive month. The Employment Index fell to 35.4%, down from 36.5% last month, and the lowest since November 1982 (28.2%), the trough of the previous recession. A lagging indicator, Employment would not likely bottom out and turn upward until other leading indicators have established the change in direction.

Employment	%Higher	%Same	%Lower	Net	Index
February 1991	5	60	35	–30	35.4
January 1991	7	57	36	–29	36.5
December 1990	7	61	32	–25	38.7
November 1990	5	62	33	–28	37.2



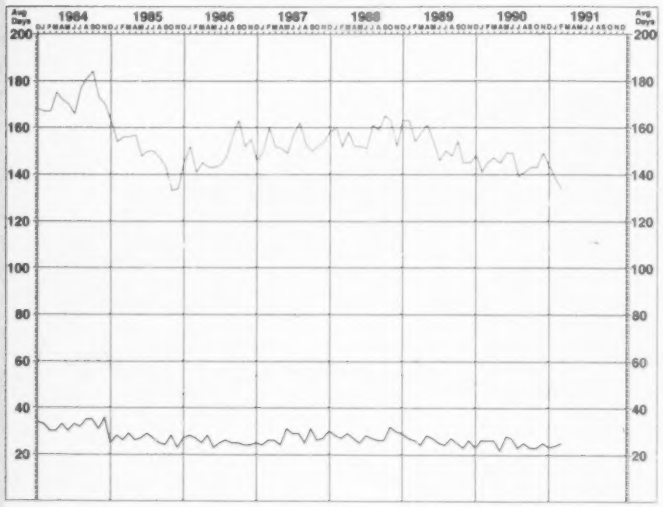
The Price Index registered 41.8% in February, down sharply from 49.1% in January, and the lowest since December 1982 (39.1%). The significant downward trend in inflation since October is very encouraging; with fears of supply interruption in oil-related products all but abated, this trend is likely to continue.

Prices	%Higher	%Same	%Lower	Net	Index
February 1991	12	60	28	–16	41.8
January 1991	25	54	21	+ 4	49.1
December 1990	32	55	13	+19	61.2
November 1990	44	46	10	+34	69.5

consecutive month; **Silver; Steel** — Equal reports of price increases; **Steel Scrap** — 4th consecutive month; **Zinc** — 7th consecutive month; **Stainless Steel** — 2nd consecutive month; **Stainless Steel Pipe; Bearings** — 4th consecutive month, after being reported up in price in August 1990 for the 23rd time in 26 months; **Uncoated Offset Paper** — 2nd consecutive month; **Corrugated Shipping Containers** — 12th time in 13 months; **Leather** — 2nd consecutive month; **Benzene** — Used heavily in making medicinal chemicals, dyes, varnishes, lacquers, and resins; **Citric Acid** — Used heavily in beverages, jellies, jams, candies, confectioneries, and in food processing; **Ethylene** — Used heavily in making ethylene oxide, plastic resins, and glycols; **Glycerine** — 2nd consecutive month (used in various ways especially as a sweetener); **Phthalic Anhydride** — Used heavily in making artificial resins, benzoic acid, and phthalates; **Polypropylene** — 2nd consecutive month (used heavily in making plastic fabric, yarns, carpets, and packaging materials); **Polystyrene**; **Propylene** — Used heavily in making polypropylene plastic and acetone, isopropyl alcohol, phenol, propylene oxide, and other chemicals; **Solvents** — 2nd consecutive month; **Sulfuric Acid** — 2nd consecutive month (used heavily in making fertilizers, dyes, adhesives, and other acids); **Styrene** — 3rd consecutive month (used chiefly in making polystyrene, synthetic rubber, latex, polyester resins, and plastic products); **Titanium Dioxide**; **Toluene** — 3rd consecutive month (used heavily in making explosives, dyes, and benzoic acid, as a solvent in paint and as a gasoline additive); **Xylene** — 3rd consecutive month (used heavily in making benzoic acid, phthalic anhydride, polyester fibers, and dyes); **Zinc Oxide** — 4th time in 6 months (used heavily as a pigmentation in paints and inks, in cosmetics, driers, quick-setting cement, and copier paper); **Crude Oil; Diesel Fuel** — 2nd consecutive month; **Fuel Oil**; **Gasoline** — 2nd consecutive month; **Natural Gas** — 2nd consecutive month; **Propane** — 2nd consecutive month; **Petrochemicals; Connectors** — 3rd consecutive month (used heavily in automobiles, computers, and business and telecommunications equipment); **DRAMS**; **Printed Circuit Boards** — 3rd consecutive month; **Microprocessors; Corn Starch** — Used in both food processing and papermaking; **High Fructose Corn Syrup** — 4th consecutive month; **Sugar** — 7th consecutive month; **Soybean Oil**; **Transportation Charges.**

BUYING POLICY

Leadtimes for Capital Expenditures declined in February for the 4th consecutive month, reflecting the decreased demand which normally lags the onset of a recession. The average leadtimes for Capital Expenditures fell to 134 days, down from 138 days in January and from 149 days as recently as November 1990. The 134 days is the lowest since November 1985 (also 134 days). Leadtimes for Production Materials in February lengthened to 48 days, up from 45 days last month, but only one day higher than in December 1990 (47 days). The average leadtimes for Maintenance, Repair, and Operating (MRO) Supplies also increased slightly in February to 25 days, up from 24 days in January, but the same as in November 1990.

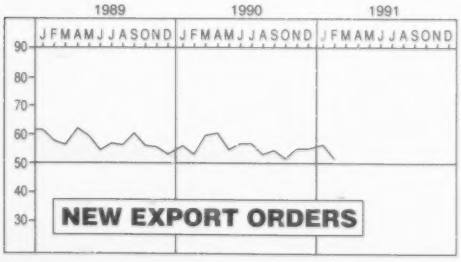


PERCENT REPORTING

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
February	12	8	13	21	34	12	134
January	12	7	14	21	32	14	138
December	13	7	10	23	33	14	139
November	11	7	13	18	34	17	149

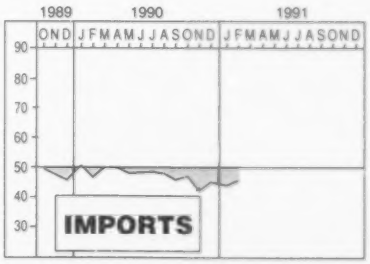
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
February	21	40	25	10	2	2	48
January	20	39	28	11	1	1	45
December	21	43	22	10	2	2	47
November	18	44	26	9	2	1	45

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
February	41	45	12	2	0	0	25
January	45	43	9	2	1	0	24
December	46	43	8	3	0	0	23
November	43	45	8	3	1	0	25



New Export Orders continued to increase in February, although not at the same fast pace of the three previous months. The New Export Orders Index, not yet seasonally adjusted, fell to 52.0%, down from 56.5% in January. However, the percentage of members exporting rose to 77% in February, up from 75% last month and the 74% average for all of 1990.

New Export Orders	%Exporting	%Better	%Same	%Worse	Net	Index
February 1991	77	19	66	15	+ 4	52.0
January 1991	75	25	63	12	+13	56.5
December 1990	74	21	68	11	+10	55.0
November 1990	75	21	68	11	+10	55.0



Imports declined in February for the tenth consecutive month, although at a lesser rate than in the three past months. The Imports Index, not seasonally adjusted, rose to 46.0%, up from 43.0% in January. However, the percentage of members importing fell to 76%, down from 79% in January, and below the average for all of 1990 (77%).

Imports	%Importing	%Higher	%Same	%Lower	Net	Index
February 1991	76	12	68	20	– 8	46.0
January 1991	79	9	68	23	–14	43.0
December 1990	76	8	73	19	–11	44.5
November 1990	76	6	72	22	–16	42.0

DATA AND METHOD OF PRESENTATION

The **Report on Business** is based on data compiled from monthly replies to questions asked of purchasing executives in over 300 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty industries in 50 states are represented on the committee.

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured [New Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Employment and Prices], this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries), and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index.

Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. A sufficient history is not yet available for the New Export Orders and Imports Indexes to determine seasonal adjustment factors. Therefore, these two indexes are not seasonally adjusted. The Purchasing Managers' Index (PMI) is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (New Orders, Production, Supplier Deliveries, Inventories and Employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

Responses to Buying Policy reflect the percent reporting the current months lead time, the approximate weighted number of days ahead for which commitments are made for Production Materials, Capital Expenditures and Maintenance, Repair and Operating (MRO) Supplies, expressed as hand-to-mouth (5 days), 30 days, 60 days, 90 days, 6 months (180 days), a year or more (360 days) and the weighted average number of days. These responses are raw data, never revised and not seasonally adjusted since there is no significant seasonal pattern.